Board of Directors
Twelfth Annual Study
February 1985

KORN/FERRY INTERNATIONAL

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KORN/FERRY INTERNATIONAL
TWELFTH ANNUAL BOARD OF DIRECTORS STUDY

Introduction

If 1984 has taught us anything, it is that directors are increasingly in the public "spotlight," and they are going to be held more accountable for the actions of the corporations they serve.

Shareholders are demanding performance and value for their investment. Employees are demanding improved compensation and job security. Government is demanding compliance with myriad standards and more severe strictures. Customers are demanding that products and services keep pace with their changing needs. Communities are demanding corporate citizenship and commitment.

Everyone—within and without the corporation—is demanding that directors serve many diverse and often conflicting interests.

The current climate may discourage accomplished individuals—the ones most in demand—from accepting new board positions. At the very least, directors must accept the post with eyes wide open. What is the role and responsibility of the director? How does the director exercise it? What constitutes due diligence? And how is the director prepared and equipped for such a role and the responsibility that goes with it?

No doubt the issues will be seriously debated by all corporations and, in particular, the 38 percent of companies we surveyed who said they are planning to select new board members in 1985.

Accountability: The Key Issue

Our latest board study was answered by a record 633 out of 1,000 of America's largest companies. This unusually high response tells us that corporations appear to be more anxious than ever to compare notes, assemble facts and get a general consensus of what is going on in boardrooms. More to the point, it is clear that the key issue on everyone's mind is *accountability.*

In preparing this report, we reviewed the trends we predicted over the past several years to determine their validity today. We also identified five new trends that will have direct impact on corporate accountability.

Six of the trends we predicted in 1983 are particularly relevant. Clearly, the days of the "rubber stamp" board are over. Director compensation continues to rise. Senior executives from outside companies, with strong operating experience, are the most sought-after directors. Former high-ranking government officials, especially those who came out of the private sector, are in demand. A new generation of bright, young "stars" is filling recently vacated board seats. And outside lawyers, investment bankers and commercial bankers are on the decline as directors.

The days when a company could afford to add a new director on the basis of an impressive resumé are long gone. Too much is at stake. If corporations want to attract top-quality directors and demand accountability from them, they must be willing to offer them something in return.

Time, Dollars and Influence

In the years to come, three critical factors will determine whether or not a talented individual accepts a board position. They are influence, dollars and time.

Today's director wants, and more appropriately needs, the latitude to effectively influence a corporation's policies and practices. Increasingly, directors are becoming less bashful and more assertive, asking the CEO the really tough questions. Directors rarely accept a board seat in which they will have little, if any, power.

Directors also expect to be and should be well compensated for their efforts. If they are willing to take responsibility for the corporate governance of a corporation, they must be paid on a scale commensurate with the job. Our study again shows that companies are willing to pay for quality directors.

Time is the major obstacle in attracting new board members. Our latest study also reveals that the average board member of a billion dollar plus company spends about 160 hours a year on board duties. Prospective directors are asking themselves how they can possibly afford the time to do an adequate job. Equally important, many are asking, why take the risk of serving? Increasingly, qualified potential directors are turning down board opportunities.

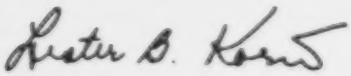
The Activist Board at Work

Given the inescapability of these issues, we see five new trends emerging over the next several years. All of them relate to accountability.

- *Trend #1*—In the wake of mounting legal issues, increased time constraints and potentially adverse public visibility, directors will be less likely to accept automatic renomination. Fewer may be willing to serve. The total population of qualified directors willing to accept new board memberships is likely to shrink.

- *Trend #2*—Board members of necessity will become increasingly accessible to senior and operating management, not just the CEO. This accessibility should not be seen as a threat to the CEO.
- *Trend #3*—Directors will increasingly hold meetings at key company facilities, such as R&D labs, manufacturing floors, and so on. It is time for directors to get away from the "ivory tower" and to experience firsthand what is happening in the trenches. Many feel this "hands on" approach will make a difference in directors' impact on strategy and day-to-day operations.
- *Trend #4*—Board members will continue to get more compensation, either in fees or in perks. We also believe that directors, like managers, will be paid on scales commensurate with their special contributions to the board for serving on strategically important committees.
- *Trend #5*—Directors will work increasingly toward devising methods of more effectively measuring the performance of the CEO and other key executives. If the board is to be truly accountable, standards of performance are a must.

Motivated by the increased demand for accountability, the "activist board" we identified several years ago is taking form. The effects of this trend should prove highly beneficial to corporations, their constituents and management.



Lester B. Korn
Chairman

Richard M. Ferry
President

February 28, 1985

SUMMARY OF FINDINGS

On a question-by-question basis, the following are the key findings of the Korn/Ferry International Twelfth Annual Board of Directors Study.

1. Size of Board (Table 1)

Corporate boards, on the average, are composed of 13 directors, a number which has remained constant since this study was launched 12 years ago. Board size, however, does vary with company size and type of business. The largest boards are found among banks and other financial institutions, which average 19 members. Smaller companies with revenues of under $200 million have an average of only 10 board members.

During the past year, the average number of directors for $3 billion plus companies dropped by one, while board membership for most smaller industrials increased by one. Retailers showed a marked increase in board size, from an average of 13 to 16 members.

2. Inside Directors vs. Outside Directors (Tables 1 and 2)

For the seventh consecutive year, corporations surveyed have reported an average of four inside directors and nine outside directors (Table 1).

Companies are showing a stronger and stronger preference for outside directors. Eighty-three percent of respondents now indicate that outside directors should fill a majority of board seats compared with 81 percent in 1983 and only 62 percent in 1976, when this question was first asked. In addition, 36 percent of all respondents believe that at least three-quarters of the board should be made up of outside directors (Table 2).

Banks and other financial institutions expressed the strongest preference for outside directors, with 90 percent opting for outside director dominance.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Seventy-seven percent of this year's respondents again report that their chairman is also chief executive officer. This combination of duties occurs most frequently (85 percent) in banks and other financial institutions and among larger companies. But industrials with revenues of under $200 million increasingly seem to be vesting one executive with this dual role: 77 percent in 1984 compared with only 65 percent cited two years before. Forty-two percent of the respondents report that their chief executive officer is also their chief operating officer, about the same as last year.

4. Board Composition (Table 4)

Corporate boards have been moving steadily towards greater independence over the past 12 years, and this year's study reconfirms the

fundamental changes in board composition that reflect this trend. Directors are now drawn from three primary sources: senior executives of other companies (88 percent) retired executives of other companies (69 percent) and academicians (52 percent). Directors from these three sources are even more prevalent on the boards of billion dollar companies, 91 percent of which include at least one senior executive from another company. Senior executives from other companies average five to a board among this year's respondents, well above the average of only one or two from other sources. Attorneys who provide legal services for the company continue to decline as representatives on all boards as do commercial bankers and major shareholders who are not officers of the company (Table 4A).

Representation among women was up moderately this year, from 43 percent to 45 percent. Minorities have held steady and sit on more than a quarter of the boards surveyed. While women and minorities made dramatic gains in board representation early in the decade, 1984 saw only a slight increase for them over the year before. Both women and ethnic directors continue to come primarily from the ranks of senior officers of other companies and from academia. While a growing number of minorities are taken from the ranks of senior executives of other companies and increasingly from the legal profession, women directors currently come most often from academia (Table 4B).

As in the past, banks and other financial institutions have the highest number of women and minority board members. Women sit on nearly three-quarters of participating financial company boards, while minorities are represented on 53 percent, up a significant 8 percent from last year.

Former government officials are widely sought as outside directors. Of all respondent boards, 31 percent now report seating a former government official, up seven percent from five years ago.

Among industrials, nearly one-half of the billion dollar companies and nearly two-thirds of those in the $3 billion and over category report having former government officials as directors. They also serve on 12 percent of the smaller company boards (under $200 million), up 5 percent over last year.

5. Committees (Table 5)

The most prevalent standing committees in use remain audit (98 percent), compensation (86 percent) and executive (80 percent), but the nominating committee continues to gain favor. In our first survey 12 years ago, only two percent of the companies had standing nominating committees. Now 62 percent report a nominating committee, up 10 percent during the last five years (Table 5A). Seventy-five percent of the $5 billion plus companies report a nominating committee. Smaller companies with revenues under

$200 million make much less frequent use of the nominating committee, but nevertheless, their incidence took a big jump in 1984 from 35 percent to 47 percent.

Nearly 60 percent of companies report that their nominating committees participate actively in committee appointments and 42 percent in management succession. The scope of the nominating committee has broadened: respondents now cite the nominating committee as often as the executive committee as a participant in the management succession process. However, the compensation/personnel committee retains the predominant role in management succession.

Committee composition has remained relatively constant. The ratio of outside to inside directors, as well as the average number of directors on standing committees, remains unchanged. Committees average from four to six directors. Audit and compensation committees continue to be composed entirely of outside directors (Table 5B). (The NYSE now requires boards to maintain active audit committees made up exclusively of directors independent of management.)

The number of committee meetings per year averages from two to four, unchanged from last year. However the number of meetings for the executive committee shows a steady decline from six meetings five years ago and four in 1983 to three meetings in 1984. Perhaps the growing involvement of the total board in major issues has reduced the need for executive committee meetings (Table 5C).

Thirty-three percent of respondents acknowledge that outside consultants are brought in to assist board committees, 79 percent of the time for matters relating to compensation and 45 percent of the time for assistance in the area of mergers and acquisitions.

6. Compensation (Table 6)

The annual plus per-meeting fee remains the generally accepted form of compensation for outside directors with 85 percent of this year's respondents reporting its use (Table 6A). This method is most widely used by insurance companies (90 percent). Retailers who in the past often paid an annual fee only, have now turned largely to annual plus per-meeting fee (84 percent), up from 76 percent in 1983.

Industrials with under $200 million in revenues lead all respondents in adhering to the annual fee only (19 percent). But overall, only 10 percent use this method, down from 13 percent in 1983 and from 25 percent in 1973.

At three percent, per-meeting fee only remains the most infrequent mode of compensation.

Annual Plus Per-Meeting Fee (85 percent of the respondents)

For all outside directors compensated on an annual plus per-meeting basis, the average earnings reported were $18,800, up from $18,090 last year. Compensation has risen 29 percent from the $14,570 average of five years ago. Commensurately, the percentage of directors earning under $11,000 has decreased substantially to 12 percent, down from 35 percent of reporting respondents five years ago. At the same time, the percentage of those earning $25,000 and over has more than tripled from six percent five years ago to 20 percent in 1984. In one year alone, the number of respondents reporting compensation of $25,000 or more increased from 15 percent (1983) to 20 percent (1984) (Table 6B).

The $18,800 total average annual compensation for all companies comprises an annual fee of $12,400 and a per-meeting fee of $724, up from an $11,700 annual fee and a $717 per-meeting fee last year (Table 6B).

As in the past, the larger the company, the higher the compensation. Directors of billion dollar industrial corporations earn an average of $23,300, up from $22,690 last year; directors of the $5 billion and over companies earned an average of $26,300, 19 percent more than reported five years earlier (Table 6C).

However, in a one-year period, directors of companies with revenues of under $200 million increased their average compensation package by 33 percent, from $9,270 in 1983 to $12,300 in 1984.

Retailers made the largest gains over the past five years, up 62 percent to $21,400. This is a departure from past years in which banks and financial institutions have consistently made the greatest gains.

In 1984, the upper quartile average for all responding directors was $27,100, with averages ranging from $14,100 for industrials in the $200-$399 million category to $36,100 for $5 billion and over companies (Table 6C). The average upper quartile for all billion dollar companies was $32,100.

Annual Fee Only (10 percent of the respondents)

The average earnings of outside directors receiving only an annual fee increased 30 percent over the past five years, from $12,850 to $16,700. However the average annual fee this year of $16,700 was only 4 percent higher than the average fee reported in 1983 (Table 6D).

Companies with revenues under $1 billion paid only an annual fee more than twice as often as billion dollar companies, although their average annual fee was somewhat lower, $17,800 compared with $21,700.

Per-Meeting Fee Only (Three percent of the respondents)

The smallest category, respondents who compensate for meetings only, reported an average fee of $810, a 58 percent leap above last year's average of $514.

7. Committee Compensation (Table 7)

Nearly 90 percent of all participants offer additional compensation to their outside directors for serving on committees (Table 7A).

The per-meeting fee continues to predominate, but the number of companies paying in this manner has been declining since 1980, when 65 percent of the respondents reported its use. Now only 57 percent of our participating companies compensate committee members with per-meeting fees. On the other hand, the percentage of companies paying an annual plus per-meeting fee for committee service has climbed continuously from 26 percent reported five years ago to 36 percent in 1984. Only seven percent of companies surveyed pay committee members an annual fee only (Table 7B).

Committee member fees average $730 per meeting ($810 for billion dollar corporations). Committee chairmen receive somewhat higher compensation, an average of $756 per meeting ($823 in billion dollar corporations.)

8. Additional Compensation Information (Table 8)

Forty-two percent of participants indicate that they increased compensation for their outside directors during the past year, only two percent more than in 1983, but significantly fewer than the 54 percent who did so five years ago. In 1984, the average increase was $2,710, a small dip from last year's average of $2,850. Billion dollar companies maintain their lead with a $2,950 increase in compensation in 1984, but it was less than the $3,370 increase received the year before. Smaller companies (under $200 million) posted the greatest increase (78 percent), from $1,390 in 1983 to $2,480 in 1984 (Table 8A). Twenty-two percent of respondents project a fee increase for the coming year, in the range of $2,000 to $3,000 (Table 8B).

Sixty-nine percent of this year's participants believe that outside directors are adequately compensated, down from 91 percent reported in 1983. An unusually high percentage of participants did not respond to the question (26 percent), as compared with a no response rate of only one percent in 1983. Perhaps this is a reaction to the questions raised by recent publicity given to the role of boards of directors in situations where companies confront serious problems.

Only 64 percent of retailers believe that directors are adequately compensated, compared with 97 percent in 1983; and yet the retail

industry as a group registered the biggest gains in 1984 board compensation.

Twenty-three percent of all respondents have outside directors who receive special consulting fees, down from 26 percent last year.

The highest paid outside directors average $24,440 this year for all board services exclusive of any consulting fees, a six percent increase over last year's average of $23,100 and 32 percent more than the $18,530 of five years ago. Twenty-five percent of the largest industrial companies ($5 billion and over) compensate their highest paid outside directors with payment in excess of $40,000. The upper quartile average for all directors is $41,600, up from $39,270 last year and $29,660 five years ago (Table 8C).

In 1984, 38 percent of respondents reported that their board chairman has primary responsibility for establishing board compensation, up from 34 percent the year before. The compensation committee establishes renumeration for 24 percent of the participating companies, and in 26 percent of the cases, the entire board is responsible (Table 8D). Nearly 90 percent of the respondents have a procedure whereby the board annually reviews and establishes appropriate compensation levels for the chief executive officer. Eighty-three percent report a board review of the compensation for other senior officers.

Benefits

Benefits continue to be a significant feature of compensation plans of outside directors. Accident insurance (47 percent), travel expense reimbursement for spouses (27 percent) and life insurance (23 percent) are all growing in popularity (Table 8E). Matching educational gifts are becoming increasingly common, rising to 48 percent from 44 percent in 1983 and 40 percent in 1982. Travel expense reimbursement (provided by 91%) and directors' liability insurance (provided by 87 percent of the respondents) remain widely offered.

The option of deferring board fees until retirement is offered by a majority of responding companies (60 percent) (Table 8E). Eleven percent of the companies that do not have a deferment plan contemplate establishing one, as compared with six percent indicating this intention in 1983. It appears that each year this option is becoming more widely accepted and put into practice. While only 26 percent of the smaller companies (under $200 million) have an income deferral plan, 76 percent of the largest companies ($5 billion and over) report one.

In 1984, 20 percent of all respondents provided retirement benefits. Thirty percent of the billion dollar corporations, as compared with five percent of companies with revenues under $200 million, reported having a retirement program. In all cases, length of board service was a factor in determining

the extent of retirement benefits. The average length of service required to qualify for retirement plans was six years.

Stock Ownership

Seventy-six percent of respondents and 83% of billion dollar companies stated that stock options should not be part of a director's compensation, although 33 percent of company bylaws allow for them. Nevertheless, about 80 percent of participating firms of all sizes believe that all directors should own some company stock. Of these, 24 percent believe directors should own approximately 500 shares, while 22 percent feel that roughly 100 shares are sufficient. Nineteen percent responded that board members should own over 1,000 shares. Companies with revenues of $600 million and above favored the 100 share figure, while smaller companies opted for larger blocks, either of 500 or over 1,000 shares. Only eight of the 492 who responded to the question of stock ownership report that outside directors own no stock in their companies. The average number of shares owned by outside directors ranged from zero to well over 100,000 because some blocks of stock are held by outside directors who are heirs or members of the founding family. However, well over a third of the respondents (37 percent) report that their outside directors own one to 3,000 shares, with nearly 20 percent owning between 500 and 1500 shares.

9. Board Practices and Policies (Table 9)

Study respondents average eight regular board meetings per year (Table 9A). Financial institutions meet most frequently, averaging nine times per year. Fifty-one percent average at least one board meeting away from their corporate headquarters, and eight percent hold at least one of these meetings outside the U.S.

After climbing sharply during the past six years, time spent on board-related business took a small dip in 1984, averaging a total of 121 hours, including time for review, preparation and travel in addition to meetings (Table 9B).

Twenty-five percent of respondents reported devoting more than 130 hours to board-related activities.

Interestingly, directors of the under $200 million dollar companies increased the amount of time spent on board activities from 78 hours in 1983 to 102 hours, while the average time investment for directors of billion dollar companies decreased somewhat to 148 hours from 152 hours in 1983. Banking and financial institutions slightly increased time spent on board activities. The $5 billion and over corporations demand over 160 hours of their outside directors, the equivalent of four 40-hour work weeks (Table 9B).

Overall, the larger the company, the more time is devoted to board-related business.

If compensated on an annual plus per-meeting fee basis, outside directors earned $155 per hour this year, up from $146 last year. The average number of hours devoted to board activities decreased in 1984, while average director compensation for the year increased. The highest hourly rate, $196 per hour, went to directors of retailing companies. Insurance companies paid the lowest, $148 per hour, but this was an increase from last year's hourly rate of $130.

Eighty-nine percent of all respondents and 94% of the $5 billion dollar companies allow CEO's to sit on outside corporate boards. Of the few who impose limits, most say the CEO should sit on no more than three boards.

For senior executives other than the CEO, respondents stated that generally they should not hold more than three board directorships, but limiting the number for these officers was not a critical factor.

Seventy-three percent of respondents have a mandatory retirement age for directors. Only 49 percent of companies with revenues under $200 million have a mandatory retirement age, in contrast to 83 percent of billion dollar companies and 87 percent of $5 billion and over companies. For the ninth consecutive year, the average retirement age for outside directors has remained unchanged at 70. The average age for inside directors is 68, as compared with 67 years of age in 1983. Four percent of respondents state that their mandatory retirement age policy is under review.

10. Locating Outside Directors (Table 10)

Outside directors resigned from the boards of 36 percent of responding companies during the past year. Retirement was again cited (by 71 percent) as the major reason for resignation, increasing by six percent over 1983. Time demands were given by 11 percent of the respondents as a reason for resignation. Mergers and disagreements over policy were two reasons newly cited by three percent and two percent of respondents, respectively.

Forty-four percent of the respondents added one or more new outside directors to their boards during the past year, compared with 47% in 1983. Twenty-three percent named new inside directors (Table 10A).

Board vacancies continue to be filled predominantly through recommendations by the chairman (78 percent) and by other board members (75 percent). Fifty-seven percent used the nominating committee to identify and select new directors; that percentage rose to 65 percent among the billion dollar corporations and to 74 percent among $5 billion corporations.

Recommendations of other corporate officers (38 percent) and referrals from executive acquaintances (12 percent) decreased from 54 percent and 24 percent respectively, in the past five years. The use of executive search firms was cited by nine percent of the total respondents, and 15 percent of the largest companies ($5 billion and over) as a means of finding new board members (Table 10B).

Selection Criteria

Seventy-three percent of the respondents cited corporate experience as the primary consideration for selecting prospective directors. Specific industry experience (25 percent) and functional experience (25 percent) are also important qualities sought in prospective directors. Prestige was mentioned by only six percent compared with 13 percent in 1983, thus further discrediting the concept of an honorific or "rubber stamp" board (Table 10C). Fully employed executives are preferred by 51 percent of the respondents. This preference was particularly true of financial institutions (69 percent).

Seventeen percent of this year's respondents state that board candidates declined to serve on their boards (Table 10D). Retail companies experienced the most refusals (24 percent). However, the average number of refusals for retailers has decreased from a high of 33 percent in 1983.

Time commitment, cited by 56 percent of the respondents, is the predominant reason given for declining an invitation to serve on corporate boards, but it was much less of a factor than in 1983 when it was the primary cause for 70 percent. Conversely, 65 percent of the giant corporations with revenues of more than $5 billion mentioned time commitment as the primary reason for declining to serve on boards, more than twice as often as in 1983 when the percentage was only 30. Increased liability was cited by four percent of the respondents, compared with 0 in 1983 (Table 10D).

Thirty-eight percent of all respondents expect a board vacancy this year, about the same level as last year.

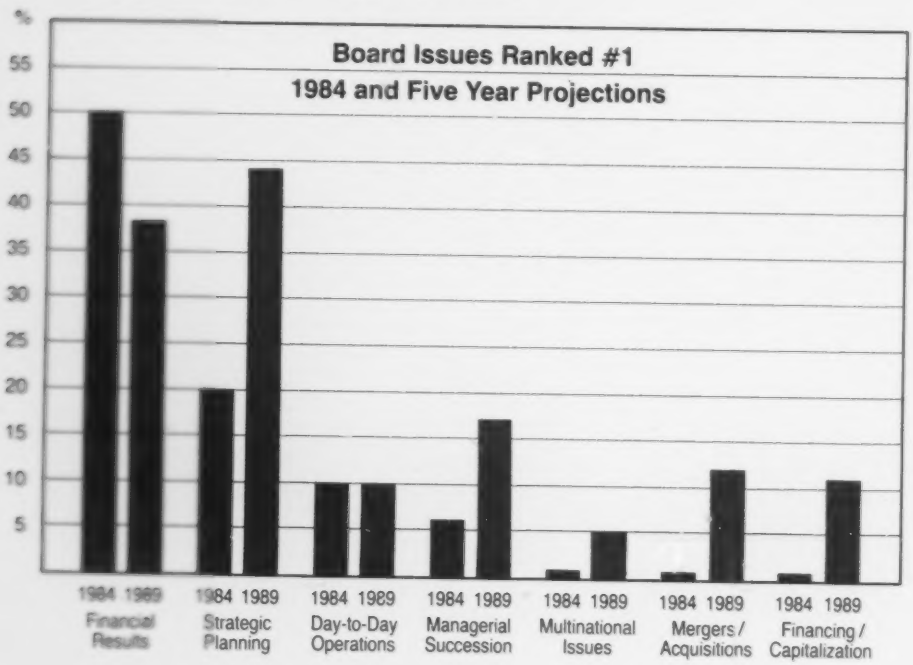
11. Board Issues (Table 11)

While financial results is the single most significant issue for all companies (cited by 50 percent as ranking first), other issues show a variance according to size. Larger companies are more concerned with strategic planning and succession than smaller companies for whom financing/capitalization and mergers/acquisitions are more important factors. For example, over 32 percent of the $5 billion plus corporations cite succession as one of their top three priorities, whereas it was mentioned by only 23 percent of companies with revenues under $1 billion. Among the $5 billion plus corporations there is a marked drop in concern about

mergers and acquisitions since last year, from 25 percent to only 13 percent, while the overall average of 20 percent shows only a small rise from the 18 percent who cited it in 1983 as one of their top three concerns.

However, projections as to the importance of these issues five years from now showed a striking turnaround in priorities. Strategic planning outpaced financial results and was ranked first by 44 percent of the total respondents, compared with only 19 percent last year. (The increase was across the board, all companies, all industries.) Managerial succession also increased in importance, rising from five percent to 17 percent since our Eleventh Annual Study. Mergers/acquisitions and financing/ capitalization jumped from one percent to 12 percent and 11%, respectively.

Presently, financial results continue to preoccupy the board most, accounting for an average 26 percent of meeting time. The respondents estimate that 18 percent of board time is devoted to day-to-day operations, followed by strategic planning (15 percent).



12. Participating Companies (Table 12)

—Size of Participating Companies (Table 12A)
—Stock Exchange of Participating Companies (Table 12B)
—Type of Participating Companies (Table 12C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under $200 million	3	7	10
$200 million-$399 million	3	7	10
$400 million-$599 million	3	8	11
$600 million-$999 million	4	8	12
$1 billion-$2.999 billion	4	9	13
$3 billion-$4.999 billion	4	10	14
$5 billion and over	4	11	15
Banks and other financial institutions	4	15	19
Insurance companies	4	12	16
Retailers	5	11	16
Service companies	3	10	13
Average	4	9	13

TABLE 2—OUTSIDE DIRECTORS ON THE BOARD

What is the minimum percentage of outside directors preferred?

Minimum %	% 1980	% 1983	% 1984
25% and under	4.7%	3.2%	3.2%
26%-50%	16.5%	10.8%	8.7%
51%-75%	45.3%	44.4%	47.1%
76%-85%	29.0%*	37.0%*	25.3%
86% and over	—	—	10.3%
No response	4.5%	4.6%	5.4%
TOTAL	100.0%	100.0%	100.0%

*Figure represents 76% and over.

└ FIVE-YEAR TREND ┘

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	76.9%	42.3%
No	20.4%	55.5%
No response	2.7%	2.2%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	% 1980	% 1983	% 1984
Senior executive (other companies)	88.2%	89.4%	87.5%
Retired or previously employed corporate officer	48.4%	46.9%	46.0%
Commercial banker	37.8%	33.2%	31.3%
Attorney (provides legal services for the company)	32.1%	30.2%	28.4%
Academician	48.4%	51.7%	51.5%
Investment banker	26.0%	22.9%	24.3%
Major shareholder (not officer of the company)	30.2%	30.4%	29.2%
Attorney (does not provide legal services for the company)	32.2%	34.3%	33.5%
Former government official	23.8%	30.2%	30.8%
Female	36.1%	43.4%	44.7%
Ethnic minority member	16.7%	25.9%	26.2%
Non-U.S. citizen	12.8%	15.4%	14.8%
International executive (American)	6.6%	8.1%	7.6%
"Professional" director	18.1%	18.2%	17.9%
Retired executive (other companies)	62.2%	70.0%	69.4%

└ FIVE-YEAR TREND ┘

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior executives (other company)	20.5%	25.9%
Academicians	23.3%	24.7%
Former government officials	11.3%	12.0%
Attorneys (do not provide legal services)	8.5%	14.5%
Major shareholders (not officers of the company)	8.8%	4.8%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1980	% 1983	% 1984
Audit	98.3%	99.2%	97.6%
Compensation	83.5%	84.6%	85.5%
Executive	77.3%	80.4%	79.9%
Nominating	52.4%	59.4%	61.5%
Finance	32.3%	34.3%	37.8%
Benefits	29.9%	34.5%	33.6%
Public affairs	9.5%	12.6%	11.5%
Corporate ethics	6.6%	5.8%	7.0%

└ FIVE-YEAR TREND ┘

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	3	5
Nominating	1	4	5
Finance	2	4	6
Benefits	1	3	4
Public affairs	1	4	5
Corporate ethics	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1980 Average Number of Meetings	1983 Average Number of Meetings	1984 Average Number of Meetings
Audit	4	3	3
Compensation	4	4	4
Executive	6	4	3
Nominating	2	2	2
Finance	6	4	4
Benefits	3	3	3
Public affairs	3	3	3
Corporate ethics	2	2	3

└ FIVE-YEAR TREND ┘

TABLE 6—COMPENSATION

6A. How are board members compensated?

Compensation	% 1980	% 1983	% 1984
Annual plus per-meeting fee (see Table 6B and 6C for amounts)	77.8%	84.5%	85.0%
Annual fee only (see Table 6D for amounts)	16.6%	12.8%	10.0%
Per-meeting fee only	4.2%	1.7%	3.2%
No response	1.4%	1.0%	1.8%
TOTAL	100.0%	100.0%	100.0%

└ FIVE-YEAR TREND ┘

6B. Annual Plus Per-Meeting Fee

Annual Fee Amount	% 1980	% 1983	% 1984
Under $5,000	15.3%	4.9%	5.5%
$5,000-$6,999	19.2%	10.2%	8.6%
$7,000-$10,999	34.2%	30.4%	26.0%
$11,000-$13,999	16.8%	18.2%	18.2%
$14,000 and over	14.5%	35.7%	41.3%
Unspecified	—	0.6%	0.4%
TOTAL	100.0%	100.0%	100.0%

└ FIVE-YEAR TREND ┘

Average Annual Fee		$11,700	$12,400

PLUS

Amount Per Meeting	% 1980	% 1983	% 1984
Under $250	4.0%	2.4%	0.8%
$250-$499	27.9%	11.6%	9.1%
$500-$599	40.2%	34.3%	27.7%
$600-$799	27.7%	30.0%	37.7%
$800 and over	—	21.0%	24.3%
Unspecified	0.2%	0.7%	0.4%
TOTAL	100.0%	100.0%	100.0%

└ FIVE-YEAR TREND ┘

Average Per-Meeting Fee		$717	$724

COMPENSATION (continued)

EQUALS

Total Average Annual Compensation	% 1980	% 1983	% 1984
Under $7,000	11.3%	2.2%	1.9%
$7,000-$10,999	23.7%	13.6%	10.1%
$11,000-$13,999	21.0%	15.1%	13.4%
$14,000-$16,999	13.4%	18.9%	17.1%
$17,000-$19,999	12.1%	14.9%	16.1%
$20,000-$24,999	11.4%	20.6%	21.8%
$25,000 and over	6.0%	14.7%	19.6%
Unspecified	1.1%	—	—
TOTAL	100.0%	100.0%	100.0%
Average	$14,570	$18,090	$18,800

FIVE-YEAR TREND

6C. Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	1980 Average Compensation	1984 Average Compensation	1984 Upper Quartile Average
Industrials			
Under $200 million	$ 9,260	$12,300	$18,200
$200 million-$399 million	$11,020	$13,000	$14,100
$400 million-$599 million	$10,770	$15,200	$20,300
$600 million-$999 million	$12,980	$17,900	$24,800
$1 billion-$2.999 billion	$18,170	$20,300	$27,500
$3 billion-$4.999 billion	$21,610	$24,400	$29,500
$5 billion and over	$22,080	$26,300	$36,100
Banks and other financial institutions	$11,990	$17,500	$27,000
Insurance companies	$14,140	$16,400	$27,300
Retailers	$13,230	$21,400	$31,100
Service companies	—	$18,900	$27,900
Average	$14,570	$18,800	$27,100

FIVE-YEAR TREND

6D. Annual Fee Only

Annual Fee Amount	% 1980	% 1983	% 1984
Under $7,000	18.8%	5.1%	4.8%
$7,000-$9,999	10.4%	11.5%	11.1%
$10,000-$11,999	12.5%	15.4%	9.5%
$12,000-$13,999	13.5%	5.1%	11.1%
$14,000-$15,999	17.7%	15.4%	11.1%
$16,000-$19,999	27.1%*	15.4%	17.5%
$20,000 and over	—	32.1%	34.9%
TOTAL	100.0%	100.0%	100.0%
Average	$12,850	$16,100	$16,700

*Figure represents $16,000 and over.

FIVE-YEAR TREND

TABLE 7—COMMITTEE COMPENSATION

7A. Are outside directors paid an extra fee for serving on a committee?

	% 1980	% 1984
Yes	86.1%	88.2%
No	12.2%	9.0%
No response	1.7%	2.8%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

7B. If yes, how are they compensated?

	% 1980	% 1984
Per-meeting fee only	64.5%	57.1%
Annual plus per-meeting fee	26.2%	35.9%
Annual fee only	9.1%	6.6%
No response	0.2%	0.4%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. Has board compensation been raised within the last 12 months?

	% 1983	% 1984
Yes	39.8%	41.9%
No	59.7%	53.9%
No response	0.5%	4.2%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	1983 Increase	1984 Increase
Industrials		
Under $200 million	$1,390	$2,480
$200 million-$399 million	$2,100	$1,970
$400 million-$599 million	$2,430	$2,220
$600 million-$999 million	$2,430	$3,110
$1 billion-$2.999 billion	$3,540	$3,220
$3 billion-$4.999 billion	$3,030	$2,900
$5 billion and over	$3,340	$2,720
Banks and other financial institutions	$3,000	$2,830
Insurance companies	$2,500	$2,950
Retailers	$3,333	$2,520
Service companies	—	$2,580
Average	$2,850	$2,710

8B. Do you contemplate raising board compensation in the next year?

	% 1983	% 1984
Yes	25.5%	21.6%
No	71.7%	71.6%
No response	2.8%	6.8%
TOTAL	100.0%	100.0%

8C. How much did the highest paid outside director receive in 1984 for all board service activities exclusive of any consulting fees?

Type and Size of Company	1980 Average Compensation	1984 Average Compensation	1984 Upper Quartile Average
Industrials			
Under $200 million	$12,750	$14,650	$23,600
$200 million-$399 million	$14,230	$16,211	$28,000
$400 million-$599 million	$13,160	$18,630	$25,600
$600 million-$999 million	$16,210	$23,110	$37,800
$1 billion-$2.999 billion	$23,180	$25,200	$36,000
$3 billion-$4.999 billion	$25,390	$32,600	$43,800
$5 billion and over	$30,780	$34,300	$69,100
Banks and other financial institutions	$18,310	$22,830	$38,100
Insurance companies	$17,920	$24,890	$48,100
Retailers	$14,900	$30,390	$54,200
Service companies	—	$27,090	$46,000
Average	$18,530	$24,440	$41,600

FIVE-YEAR TREND

8D. Who is primarily responsible for establishing board compensation?

	%
Chairman	37.8%
Entire board	26.4%
Compensation committee	24.2%
Combination of above	8.1%
Executive committee	3.5%

8E. What benefits are included in the compensation plan for outside directors?

	%
Travel expense reimbursement	90.8%
Directors' liability insurance	87.0%
Deferral of board fees until retirement	60.3%
Matching educational gifts program	48.2%
Accident insurance	47.2%
Travel expenses for spouse	26.7%
Life insurance	22.9%
Retirement income plan	19.9%
Pension plan	12.8%
Stock options	1.1%

TABLE 9—BOARD PRACTICES AND POLICIES

9A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	17.7%
5-6	27.2%
7-9	20.2%
10-12	30.5%
13 and over	1.6%
No response	2.8%
TOTAL	100.0%
Average	8 meetings

9B. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings and travel?

Number of Hours	% 1980	% 1984
Under 40	8.5%	2.7%
41 to 70	16.8%	19.3%
71 to 100	20.3%	22.6%
101 to 130	13.0%	16.4%
131 to 160	10.6%	9.0%
161 to 190	6.6%	7.1%
191 and over	10.6%	8.7%
No response	13.6%	14.2%
TOTAL	100.0%	100.0%
Average	122 hours	121 hours

FIVE-YEAR TREND

Hours (continued)

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under $200 million	102	168
$200 million-$399 million	93	143
$400 million-$599 million	102	165
$600 million-$999 million	108	177
$1 billion-$2.999 billion	139	196
$3 billion-$4.999 billion	141	213
$5 billion and over	164	224
Banks and other financial institutions	114	189
Insurance companies	111	170
Retailers	109	170
Service companies	126	196
Average	121	190

TABLE 10—LOCATING OUTSIDE DIRECTORS

10A. How many new directors were added during the past year?

Number Added	% Inside Directors	% Outside Directors
None	44.4%	38.2%
One	17.7%	27.6%
Two	3.8%	11.5%
Three or more	1.7%	4.5%
No response	32.4%	18.2%
TOTAL	100.0%	100.0%

10B. How are outside directors located for the board?

	% 1980	% 1983	% 1984
Recommendation of chairman	79.2%	77.8%	78.0%
Recommendation of board members	78.9%	73.2%	74.7%
Nominating committee	54.2%	54.3%	56.9%
Recommendation of other corporate officers	54.2%	37.5%	38.2%
Referral from executive acquaintances	24.1%	9.7%	11.5%
Executive search	7.6%	9.7%	9.1%
Bank referral	1.6%	—	1.2%
Referral from attorneys	2.1%	—	1.2%

FIVE-YEAR TREND

10C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate experience	73.2%
Specific functional experience	24.7%
Specific industry experience	24.7%
Prestige	5.7%

10D. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1980	% 1983	% 1984
Yes	22.0%	15.8%	16.9%
No	74.3%	82.6%	73.5%
No response	3.7%	1.6%	9.6%
TOTAL	100.0%	100.0%	100.0%

If yes, what are the predominant reasons?

	% 1980	% 1983	% 1984
Time commitment	80.3%	69.5%	56.1%
On too many boards	—	22.1%	25.2%
Conflict of interest	—	20.0%	16.8%
Low compensation	0.8%	—	—
Increased legal liability	15.0%	—	3.7%
Other	3.9%	—	5.6%

TABLE 11—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	50.4%	69.7%	78.2%
Strategic planning	20.4%	45.0%	61.6%
Financing/Capitalization	1.4%	11.7%	30.7%
Day-to-day operations	9.6%	21.8%	29.9%
Managerial succession	5.7%	13.9%	22.0%
Mergers/Acquisitions	1.3%	7.1%	20.4%
Corporate ethics	0.5%	2.6%	5.4%
Shareholder relations	—	1.1%	3.5%
Multinational issues	0.6%	1.9%	4.4%
Government relations	0.3%	2.5%	4.9%
Public relations	—	0.3%	0.6%
Board compensation	—	—	—
Executive compensation	0.2%	1.1%	4.6%
Growing influence of institutional investor	0.2%	0.7%	1.2%

TABLE 12—PARTICIPATING COMPANIES

12A. Size of Participating Companies

	No. of Companies	%
Industrials		
Under $200 million	40	6.3%
$200 million-$399 million	70	11.1%
$400 million-$599 million	43	6.8%
$600 million-$999 million	62	9.8%
$1 billion-$2.999 billion	87	13.7%
$3 billion-$4.999 billion	45	7.1%
$5 billion and over	77	12.2%
Banks and other financial institutions	72	11.4%
Insurance companies	51	8.1%
Retailers	25	3.9%
Service companies	61	9.6%
TOTAL	633	100.0%

12B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	71.8%
American Stock Exchange	5.9%
Over-the-counter	13.2%
Other (private, mutual)	9.1%
TOTAL	100.0%

12C. Type of Participating Companies*

	%
Industrial	67.0%
Banks and other financial institutions	11.4%
Insurance	8.1%
Retail	3.9%
Service (new category)	9.6%
TOTAL	100.0%

**This year 1,000 companies were asked to participate. There were 633 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

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